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# Brazil

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# GEOGRAPHY

Brazil covers 8.5 million km<sup>2</sup>. It is bounded by 14,691 kilometres of borders, with Uruguay to the south, Argentina, Paraguay, Bolivia, Peru and Colombia to the west, and Venezuela, Guyana, Surinam and French Guiana to the northwest. To the east and northeast it is enclosed by 7,491 kilometres of Atlantic coastline. The country is divided into 26 States and 1 federal district, in which Brasilia, the capital city, is located.

Brazil has 5 principal geographic regions: the Atlantic Coastal Plain; the Amazon Basin; the Guiana Highlands; the Brazilian Highlands and the Pantanal.

The Atlantic Coastal Plain is a narrow lowland strip along the eastern coast, varying from 80 km wide in the south to 15 km wide in the north. Crop-oriented agriculture is supported by the rich soils of the south.

The Amazon Basin, at 1.8 million km<sup>2</sup>, is the largest continuous lowland in the world. It covers most of northern Brazil, roughly tracing the line formed by the Amazon River and the Madeira River, an Amazon

tributary. Except for Manaus, the capital of Amazonas, the region is sparsely populated.

The Guiana Highlands is an area in the far north, extending north from the Amazon River. The area is commercially mined for its manganese deposits.

The Brazilian Highlands borders the Amazon Basin in the north and covers nearly all of the southern half of Brazil. The region contains most of the country's richest farmlands. Most farming operations occur along the eastern zone. The interior is largely unsettled.

The Pantanal is a relatively small grassland area in the southwest of the country, bordering Paraguay. It is primarily a cattle grazing region.

Brazil's climate is mostly tropical, becoming temperate in the south. Summer (January) temperatures are generally quite bearable, but are often accompanied by uncomfortably high relative humidity.

Environmental issues include deforestation in the Amazon basin, air and water pollution in large cities, and land degradation caused by improper mining activities.



## DEMOGRAPHICS

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The population of Brazil is approximately 162.3 million people (1996), yielding an overall population density of 19 inhabitants per km<sup>2</sup>. The major population age divisions are 32.3 percent at 14 years or less, 60 percent between the ages of 15 and 64, and 7.7 percent over the age of 65 (1995). The literacy rate is 83.3 percent (1996). The overall population growth rate is about 1.7 percent per year. Forecasts estimate that the population will reach 175 million people by 2000. The urban population, as of 1996, was estimated as 80.9 percent of the total. There are 8 cities in the country with populations of more than 1 million people - Sao Paulo (9.6 million, 1991), Rio de Janeiro (5.4 million, 1991), Belo Horizonte (2.0 million, 1991), Recife (1.2 million, 1991), Porto Alegre (2.85 million),

Salvador (2.0 million, 1991), Brasilia (1.9 million, 1996) and Manaus (1.0 million). With the exceptions of Brasilia and Manaus, all are located within 500 kilometres of the Atlantic coast. The urban population growth rate was approximately 3 percent per year in the early 1990s, down from rates of between 4 percent and 5 percent in the previous two decades. Growth patterns have also shifted from major to smaller centres, as illustrated by recent increases in the number of cities with populations of over 20,000. Sao Paulo grows by 600,000 people per year. Almost 2 million of the current population of 9.8 million (excluding the significant metro population) live in slums. Projections indicate the population of Rio de Janeiro will reach 19 million by the year 2000.



## ECONOMIC OVERVIEW

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With the largest economy in Latin America, Brazil is a country with immense export opportunities. Despite common images of economic chaos and widespread inflation, Brazil has developed to be the world's tenth-largest economy, possessing much of the industrial base and sophistication normally attributed to G-7 countries. It is Latin America's largest and most industrialized market, with a GDP in 1996 at US\$766.5 billion. The industrial heartland is Sao Paulo which, with 18.5 million people, is one of the world's largest metropolitan centres.

In recent years, Brazil has implemented significant economic liberalization measures, many of which have been all but ignored abroad. The Canadian business community was no exception, as its attention was focussed on other, more dramatic, policies elsewhere.

Brazil has become increasingly open to a wide range of imports. In particular, tariff reductions had a positive impact on Canadian exports to Brazil. In September 1994, Brazil initiated a series of accelerated tariff reductions, that affected over 4,000 items and led to an average, trade-weighted tariff rate of 6.5 percent, about the same as Mexico's.

Other measures are being studied, for example, the lowering of numerous non-tariff barriers, including burdensome bureaucratic red tape.

The Brazilian market has undergone significant, if widely unheralded, economic reforms over the past several years. The economic renewal plan, known as the *Plano Real*, is now showing positive results, such as the dramatic drop in the country's monthly inflation rate from about 45 percent in June 1994 to less than 5 percent in August and, more recently, less than 2 percent. The Brazilian government's objective is to ensure a sustainable economic stability for the country. Over the past year or so, the Plano has maintained its course and responded well to outside pressures, not the least of which came in the wake of the problems Mexico faced in December 1994.

A second set of reforms was started early in 1995, almost as soon as the new president and cabinet

came into power in Brasilia. The move to privatize operations in the primary resource sectors, as well as in basic services such as telecommunications, electric power, and transportation, will open a market that, until now, had been closed to foreign suppliers of goods and services.

The market offers excellent short-term prospects, and the future could bring even greater returns to companies already established in Brazil. Canadian suppliers in these key sectors will have to move quickly and decisively in order to secure a share of the market, because competition will be fierce from both Brazilian and foreign suppliers. Canada's traditional and some of the less-traditional, competitors are already vying for positions in the emerging markets.

Brazil's highly regulated, relatively closed economy entered the 1990s with declining real growth, enormously high inflation rates, and an unserviceable foreign debt of US\$122 billion. Further market reforms (privatization, deregulation, and elimination of barriers to foreign investment) have been planned or introduced with the intent of further strengthening the economy which is presently carried by the natural resources, agricultural and manufacturing sectors. The construction sector is well developed, particularly in the southeastern industrial area. In addition to the market potential in the above key sectors, there will be opportunities for Canadian exporters in other sectors of rapidly growing interest. The federal and state governments' commitment to improving the delivery of education and health services will open new markets for Canadian suppliers. The private sector has acknowledged the need to increase its competitiveness both at home and abroad. This will lead to purchases of new equipment to expand and update the production base in practically all sectors. It will also lead to a search for approaches to improve the human resource base, from business and professional services to advanced technology systems.

As Brazilians feel increasingly confident in their newly-found economic stability, their consumption patterns have begun to change. Buyers have since become more selective and, although the

spectacular growth figures that the retail sector initially reported have declined, they have remained healthy.

Brazilian banks showed remarkable powers of adaptation to the new climate created by the Plano Real. Banks had made huge profits when monthly inflation rates were growing rapidly, and continued to report profits when relatively low monthly inflation rates became the rule. There were exceptions as some of the state-owned banks began to report large negative numbers in their balance sheets. The reasons were varied, and solutions have been found, at least temporarily, to avoid any major collapses.

The government has kept a tight rein on currency movements, but has not had to resort to draconian measures to stop the outflow of dollars. Importers continue to face considerable paperwork to secure foreign currencies to pay for purchases, but generally have no problems accessing the funds.

Foreign capital inflows had, traditionally, exceeded outflows especially as foreign investors sought to profit from stock exchange movements accelerated by runaway inflation. However volatile, this market accounted for significant inflow levels. In the wake of the problems that the Mexican economy encountered in December 1994, foreign investors started to rethink their strategies in a number of countries, including Brazil. This led to a reduction in inflow rates and an increase in outflows. In March 1995, the net outflow together with government efforts to retain control of the system, reached \$4 billion. By mid-April 1995, signs began to appear that the government's efforts had succeeded, as capital inflows staged a strong recovery that resulted in a smaller net outflow of \$430 million. The trend reversal continued in May 1995 and resulted in a net inflow of \$1.2 billion.

Financing for Canadian exports to Brazil has been a problem for several years. Canadian exporters nevertheless forged ahead and, in 1996, Canadian exports to Brazil hit C\$1.4 billion, despite a total lack of medium- to longer-term credits. With the privatization of Embraer in December 1994, the Export Development Corporation (EDC) saw its way clear to begin to reopen its financing window for Brazil. Lines of credit have been established

directly with Petrobras, and through Unibanco, one of Brazil's major banks. Several additional lines of credit are under discussion.

Regarded as an upper-middle income developing country, Brazil is a relative newcomer to global economics, with significant problems relating to income disparities and urban slums. Its large volume of informal housing is indicative of the extent of urban and rural poverty.

The percentage of the poorer population is rising, causing faster growth in slum areas than in formal cities. Land that could be used to provide housing is held off the market for speculative purposes (for example, 50 percent of lots in Rio de Janeiro are estimated to be vacant), thus densities increase. In turn, this is causing enormous infrastructure servicing problems. Addressing these problems would require investment in the range of at least 4.5 percent of GDP per year. The country cannot afford such an investment, and the problems persist.

Present average salaries do not allow sufficient accumulation of capital for families to enter the housing market. This situation is exacerbated by present government policies, which do not facilitate the purchase of housing. Additionally, due to imbalanced indexing, borrowers who took mortgage loans prior to 1987 began defaulting at high rates in the early 1990s; consequently, a prior government commitment to pay outstanding mortgages at maturity has effectively resulted in subsidies that had to be paid. It is estimated that the value of these subsidies eventually exceeded 2 percent of GDP. This had inflationary consequences.

Present government policies focus on reducing its role in economic activities. As a result, imports are increasing due to lower tariffs and generally freer market conditions. Brazil is a member of the Mercosur (a common market made up of Argentina, Brazil, Paraguay and Uruguay with a common external tariff).

In 1995, the worst public accounts deficit in 6 years underlined the urgency of tackling existing fiscal problems in social security, tax and public administration policies. Additionally, industrial activity in Sao Paulo decreased by 6 percent from March of 1995 to March of 1996, signalling that Brazil may be approaching a period of recession.



Inflation has been virtually eliminated, at least for the present time. Inflation in February of 1996 was 0.38 percent, the lowest it has been since 1973.

The economic perspective in Brazil, as of 1996, is shown in Table 1:

**Table 1:**  
**Brazil: 1996 Economic Indicators**

	Value	Units
Real GDP per capita	\$3,007	1990 US Dollars
Construction GDP per capita	\$223	Canadian Dollars
GDP Growth Rate	2.7%	(1991-96)
GNDI Growth Rate	2.0%	1996
Inflation	16.5%	1996
Unemployment	5.1% (Jan 1997)	of the work-force
Balance on Current Account	-\$24.8 Billion	US Dollars
External Debt	\$176.6 Billion	US Dollars

Sources: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, Central Intelligence Agency (CIA), *Country References*

## ***POLITICAL OVERVIEW***

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The current administration, whose term of office extends from 1995 to 2000, has proven its commitment to market reform and liberalization by pushing forward legislation deregulating key sectors of interest to Canada (mining, telecommunications, energy, oil and gas). In addition, it has welcomed foreign investment, diminishing state involvement in the economy, privatizing state companies, and maintaining firm control of monetary and fiscal policy in order to guarantee a stable local currency and continued servicing of Brazil's international debt.

Democracy and transparency in the decision-making process are alive and well in Brazil. The political

landscape in Brazil, as anywhere, is never entirely calm or without crises, but Canadian exporters and investors in Brazil can look forward to a relatively stable regulatory environment that is gradually moving in the right direction, facilitating international business and providing the appropriate climate for foreign companies to thrive in this burgeoning marketplace.

The Government is emphasizing increased economic opportunities for the private sector through privatization, deregulation, and the removal of impediments to competition.



Canada has a long and distinguished history in Brazil that dates back nearly a century. Canadians were responsible for developing the power systems in major cities in the south, and for bringing the first rapid transit services (streetcars) to urban centres, and even the first telecommunications company in Sao Paulo. Canadians have invested a total of \$3 billion in Brazil, making it one of Canada's most important destinations for foreign investment, after the U.S. and Britain.

Brazil is Canada's largest export market in South America, with sales showing a 46-percent growth in the past three years, to a level of C\$1.4 billion in 1996. Canadian suppliers have carved out significant markets in such diverse sectors as mobile cellular telephony, graphics packages, remote sensing, environmental technologies, cattle genetics and wheat.

While Canada's export performance has been impressive, the Brazilian market is still exceptionally promising as economic reform proceeds at a rapid and accelerating pace. Opportunities will continue to grow across the economy, including consumer goods, pharmaceuticals and medical supplies, and environmental equipment and services.

Above all, as the Brazilian business community prepares for a more active role on the international stage, it must acquire as quickly as possible the goods and services that will increase its global competitiveness—from new machinery and equipment to replace the old, to the installation of state-of-the-art manufacturing systems, and the application of the most recent management science innovations.

The predominant change in trade policy and market access issues for Canadian companies exporting to Brazil has been the adoption in January, 1995, of a Common External Tariff (CET) by all countries of the Southern Cone Common Market (Mercosur) comprised of Brazil, Argentina, Paraguay and Uruguay. Brazilian import tariffs have been replaced by a common tariff, applicable at all ports of entry in the

Mercosur zone, and, in most cases, this means that import tariffs in the Brazilian market are now lower. While the list of exemptions to the CET is still being negotiated by each respective country, the CET is one of several trade measures that illustrates the common approach being taken to trade liberalization by Mercosur members. Most goods, investment and services now flow between these four countries exempt of tariffs or significant trade barriers. For Canadian investors, an investment in one of the Mercosur countries now allows unparalleled access to the markets of the other three member states.

The investment environment in Brazil is being even further improved by ongoing reforms and market liberalization measures that are opening up previously restricted sectors to private sector and foreign capital participation. Of paramount interest to Canada are the sweeping reforms in telecommunications, energy, oil and gas, and mining. These reforms have been ongoing throughout 1996 and will, in all likelihood, offer tremendous investment opportunities for Canadian companies into 1997. Foreign competitors are already identifying suitable Brazil partners in preparation for the formalization of these changes. Canadian companies interested in optimizing the profit potential of Brazil's market deregulation reforms should do likewise.

Pending Brazilian legislation on patent and trademark protection will also create a superior environment for science and technology interchange between Canada and Brazil.

For years, Brazil was at, or near, the top of the list of Latin American markets for Canadian goods and services. In 1996, Canada's exports to Brazil grew by about 8 percent over 1995, and reached just under the \$1.5 billion mark.

Brazil is at the borderline between developed and developing countries. With a 1996 GDP of US\$766.5 billion, it stands head and shoulders above many developing, and some developed countries. Although for decades it was seen as a sleeping giant, or an economic aberration unable to reach its potential, the Brazil that emerged from the implementation of the Plano Real is vastly

different. The problems are massive and the solutions are beyond the country's financial resources, but that does not seem to unduly worry the federal and state governments. They are hopeful that the private sector, either Brazilian, foreign or both will react to the opportunities that are already appearing in various sectors of the economy in the new Brazil.

The Brazilian government estimates that, over the next four years, it will have to invest US\$71.7 billion in infrastructure. The federal budget may be able to contribute something in the area of US\$7 billion per year. The remainder will have to come from the private sector.

The law on concessions that was passed in February 1995 is a key piece in the context of the new Brazil. The law opened the way for the

private sector to participate in the provision of basic services that until now, and according to the country's constitution, was the exclusive responsibility of the state. The sectors that stand to gain the most from the situation are electric power (generation, transmission and distribution), telecommunications, transportation, highway construction, ports and airports, basic sanitation, and water supply.

Brazilian consumers have also changed in the new environment brought about by the Plano Real. They have become more selective and acutely aware of the Plano Real's purchasing power. They closely follow the trends in fashion and merchandise of first world countries and are keen to buy the newest products or services, but not before negotiating price versus quality.



# HOUSING CONDITIONS

As of 1991, there were 35.5 million households in Brazil. This was projected to rise to 39.6 million by 1995, and is further predicted to increase to 44.9 million by the year 2000, and to 50.5 million by the year 2005. These estimates are based on an anticipated household growth rate of 2.7 percent per year.

The most common housing building materials are cement and masonry, and the Brazilian residential lifestyle is quite different from Canadian lifestyles. Overcrowding is common.

Housing is considered synonymous with security for working families; however, although 57 percent of heads of households work in the industrial sector and earn reasonable wages, present costs of home ownership or renting remain beyond their reach. Further, the supply of available dwellings is low compared to the demand, another factor that increases prices. Hence, families gravitate to the favelas, and tend to build illegal homes. This is evidenced by the high consumption of cement in the favelas—the Brazilian Association of Portland Cement estimates that 51 percent of all cement used in the country is consumed in the favelas.

**Table 2:**  
**Brazil: Infrastructure Servicing (as of 1991)**

	Urban	Rural	Total
Number of residences included in count	27,160,000	7,580,000	34,740,000
Residences with no water-main connection	3,310,000	6,860,000	10,170,000
Residences not connected to municipal or area sewage systems	15,050,000	7,430,000	22,480,000
Residences not served by garbage collection	5,420,000	7,150,000	12,570,000

Note: Columns are not intended to be additive. One dwelling may be included more than once if it lacks more than one service.  
Source: IBAM, *Relatório Brasileiro Sobre os Assentamentos Humanos*, February 1996

A recent trend in urban centres is the development of wayside residences. These are makeshift dwellings set up on public streets for the purpose of allowing faster and easier access to places of work.

**Table 3:**  
**Brazil: 1980 Housing Characteristics**

Based on Total Stock of 25,293,411 units*		
By Type of Occupancy:	Owner	15,546,151
	Tenant	1,101,575
	Other	1,774,395
By Number of Rooms:	1	764,786
	2	1,986,380
	3	3,415,262
	4	4,733,736
	5	5,022,369
	6+	9,206,138
	Unknown	81,968
By Number of Occupants:	1	1,540,888
	2	3,436,568
	3	4,304,593
	4	4,482,823
	5	3,691,913
	6	2,583,643
	7	1,889,337
	8	1,231,216
	9+	2,049,658
By Available Services:	Unknown	
	Domestic Water	13,842,745
	Flush Toilets	Unknown
	Sewage Disposal	6,989,916
	Bathroom	Unknown
	Power	17,269,475

\*Individual categories do not necessarily add up to quoted total.  
Sources: ECLAC, *Human Settlements: The Shelter of Development*, October 1995; *Statistical Yearbook for Latin America and the Caribbean*, 1995

There is an acute lack of adequate basic urban and rural infrastructure. Only 35 percent of dwellings are served by municipal or regional sewage systems. Twenty percent of all residences do not have access to municipal garbage disposal. Table 2 illustrates the low scope of infrastructure servicing from the residential perspective.

Tables 3 and 4 provide further details on general housing characteristics in Brazil. Note that the information in Table 3 is dated (1980); however it does provide an indication of scale and extent of development.

**Table 4:**  
**Brazil: 1991 Housing Characteristics**

Total Stock	34 734 715
Type of Occupancy:	
Number Owned	24 261 954
Number Rented	5 689 954
Number Lent	231 566
By Available Services:	
Domestic Water	31 111 376
Sewage Disposal	29 636 321

# HOUSING SECTOR

## Overview

Local financial institutions and international agencies, such as the World Bank, have responded to explosive population increases by developing innovative housing strategies, such as cost-effective site servicing, self-help housing, and squatter upgrading programs.

## Relevant Regulatory Systems

The federal government sets building code standards. Each state makes applicable revisions to suit its region and independently controls its own administration of the code. Additionally, each state is responsible for addressing its own housing problems.

## Housing as a National Priority

Military rule gave way to elected governments in the mid-1980s. With that transition came the importance of voters, particularly large voting blocs such as those in the favelas. Consequently, addressing the housing needs of favela dwellers has become an important issue to elected governments. For example, the city of Santos (population 500,000 people) has delegated 6.5 percent of its 1996 municipal budget to favela resident councils representing a wide variety of social requirements, including housing.

Favela upgrading is becoming an important issue in other cities as well as Santos. The dramatic increase of the favela population in Sao Paulo (15 percent annually from 1990 to 1993, resulting in a population of 1.9 million people, or almost

20 percent of the total population of Sao Paulo) has given rise to PROVER, a program for the verticalization (construction of multi-storey multi-family units) and urbanization (provision of infrastructure services) of the favelas in Sao Paulo. Overall, PROVER was designed to assist 92,000 families (half a million people) in 240 favela nuclei, over the three stages indicated in Table 5.

The work progresses but it is far behind schedule. The second stage of the program is more commonly known as "Projeto Cingapura". The Inter-American Development Bank (IADB) contributed US\$150 million to this stage of the work.

Successful favela housing initiatives usually include:

- provision of sanitary and other infrastructure services (priority work);
- granting title to illegally occupied land (priority work);
- upgrading residences when appropriate rather than employing mass replacement strategies (residents are required to pay for part of the work in monthly instalments); and
- involvement of the residents at all phases of the work (through resident councils).

Projeto Cingapura has been the focus of widespread criticism because it has not given choices to the residents and it favours replacement over upgrading.

**Table 5:**  
**Brazil: Favela Rehabilitation In Sao Paulo**

	No. of Favela Nuclei	No. of Families	Duration (Months)	Cost (\$US millions)	Scheduled Completion
Stage 1	14	12,000	18	34	Jan. 96
Stage 2	170	62,300	48	250	Feb. 96
Stage 3	56	7,700	20	Not yet known	Mar. 96
Total	240	92,000	86		

Source: Inter-American Development (IDB), *Profile II, Brazil*, circa 1996



Rehabilitation of the favelas generally requires significant municipal participation and financial contribution. At the national level, government bureaucracies are inefficient and overstaffed.

Therefore, the overall investment capacity of the public sector is severely limited and public programs, including housing, suffer. Furthermore, economic stabilization is the main priority of the government, and housing is not considered to be a major component of that effort. However, analysts conclude that growing urban unemployment will eventually require a job creation effort, and the construction sector will probably play a major role. Housing may benefit as a result.

While housing is not presently regarded as a major priority, government officials do agree that the nature of housing provision must change. Emphasis must be placed on refurbishment of existing stock where possible and housing policies must be decentralized. The National Action Plan, as presented to the Second UN Conference on Human Settlements (Istanbul, 1996), specified some policies the Brazilian government intended to adopt in an effort to address its housing problems. These policies include:

- increasing funding levels for housing and allocating them to assistance for low-income families;
- implementing programs that will enable various housing options (purchase, rent-to-purchase, purchase serviced lot, build on owned lot, upgrade existing residence) for low-income families;
- creating partnering opportunities for public and private sector agencies;
- providing incentives for the adoption of new technologies in housing and infrastructure works; and
- modernizing and streamlining the housing bureaucracy.

The country intends to invest approximately US\$40 billion in residential and infrastructure programs by 1999. Some of these programs are described briefly in Table 6. Investment figures are approximate and include co-investment or matching funds from non-federal sources where applicable.

**Table 6:**  
**Brazil: Planned Housing And Infrastructure Programs**

Program	Target/Objective	Near-Term Investment
Program to Modernize Urban Management	To decentralize and improve the management of urban housing.	\$870 million from 1996 to 1999, with creation of 2,400 jobs.
Habitar Brasil	Housing assistance for low-income families and infrastructure assistance to communities.	\$2.6 billion in 1996, benefiting 268,000 families, and creating 180,000 jobs.
Pro-Moradia Program	Housing assistance (income level not known).	\$4.8 billion by the end of 1996, benefiting 433,000 families and creating 335,000 jobs
Letter of Credit Program	Government guarantee of loans to individuals for housing.	\$2.2 billion in 1996. 467 families benefited and 631,000 jobs created in 1995-96.
Program for Modernization of the Housing Sector	To improve the technical proficiency, operation and management of public housing agencies.	\$3.8 million from 1996 to 1999.
Program to Finance Building Construction	Assistance to individuals for obtaining mortgage financing through residential builders.	\$7.2 billion from 1996 to 1999, benefiting 130,000 families and providing 505,000 job opportunities.
Various Infrastructure Programs	Improvement and expansion of water and sewer systems.	\$28 billion from 1996 to 1999.

Source: República Federativa do Brasil, Relatório Nacional Brasileiro (Parte B), 1996

Agrarian reform—a grassroots process by which inactive agricultural land is returned to useful production—is an indirect means of procuring housing. The Brazilian government promised to settle 60,000 landless (and homeless) families on such land in 1996, and another 280,000 by the end of 1998. Despite its promises, however, the government has been slow to react. Consequently, large groups of families, organized and led by a militant group known as Movimento Sem-Terra (MST, Movement of the Landless), have taken to occupying inactive farmland to pressure the government into expropriating the land and turning it over to them.

However, even with immediate action on the part of the government, the expropriation process can

take several years, since the burden of proving that the land is idle must be added to the already tortuous and detailed judicial procedure. Once title is granted, there are other obstacles to overcome: the land is often unsuitable for crops without extensive lime treatments to reduce acidity, and crop prices are steadily dropping due to the abandonment of protective commodity tariffs.

Thus, the survival rate can be quite low. Actual construction of housing, therefore, might only take place for far fewer families than originally occupied the land, and might not occur until several years after occupation. Housing that is eventually built will often be very simplistic and inexpensive because most financial resources, at least initially, must be invested in crop or stock productivity.

# ***MATERIALS, LABOUR AND FINANCING***

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## **Materials**

Construction materials are primarily local, and the demand is easily met by local suppliers.

Transportation of materials is generally unsatisfactory and is usually by highway. There are a total of 1.6 million km of roadway, of which less than one tenth is paved. The country also has 31,000 km of railway, 50,000 km of navigable waterways and 150 airports with runways greater than 1.5 km in length.

Materials distribution systems and land access or allocation processes are generally inadequate. Combined with high demand and short supply, this has led to active speculation and rapid increases in material and real estate prices.

## **Labour**

Labourers are generally in ample supply, but would require training in Canadian technologies. Qualified managers are widely available, though the competition for executive level personnel creates rapid turnovers.

## **Financing**

Mortgage financing is virtually unavailable in Brazil, due to high interest rates.

Programs are available to assist the poor in obtaining housing, but there is little take-up because of the transactional complexities involved in applying for assistance. Government assistance for population sectors beyond low-income is not generally available. Financing is usually done through the builder. Builders will commence work with a typical down payment of between 5 and 10 percent, and monthly instalments set to yield full payment (including interest) over 5 years. The effective interest/mortgage rate averages 8 percent. This arrangement is frequently utilized because few families can afford the down payment. Financing can also be arranged through payroll savings programs that are usually company specific.



# HOUSING MARKET ACTIVITY, NEED AND DEMAND

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## Local Technology

Building techniques are almost exclusively brick and mortar and cement-oriented. Demand for wood-frame dwellings is virtually non-existent, because it is deemed easily penetrable (most middle- and upper-class homes are heavily alarmed to guard against burglary) and susceptible to the humid climate of Brazil. Therefore, there is little need for experience or expertise in wood-frame techniques. Designs are influenced by Portuguese and Spanish styles. High density, highrise apartments are common. Low-rise residential, as built by the formal sector, is of generally good quality and is reasonably durable. Low-income housing comprises a substantial portion of the housing stock, and the majority is makeshift—informally built from sheet metal and whatever scrap materials can be found.

Construction is generally classified as to the quality of materials used. For a one-storey single-family dwelling, the basic cost (exclusive of servicing and interior features such as heating or air conditioning systems and telephone connections) ranges from about \$490/m<sup>2</sup> using low-quality materials to about \$600/m<sup>2</sup> when high-quality materials are used.

The average cost of a three-bedroom apartment is roughly \$136,000. The cost range is wide, to satisfy the purchasing capabilities of middle- to upper-class buyers. A typical three-bedroom dwelling intended for middle- to upper-class buyers measures 130 to 140 m<sup>2</sup>. Each bedroom usually has an attached bathroom.

## Local Housing Activities

Because of the limited purchasing power of the poor and their difficulty gaining access to government assistance programs, residential construction by the private sector is generally geared toward the middle- and upper-classes.

Modernization of the existing residential infrastructure and provision of infrastructure where none previously existed is an important aspect of

Brazilian residential activity. Brazil has a very large proportion of favela communities. Most of these communities do not have an infrastructure system, and housing cannot advance without such systems. The Inter-American Development Bank (IADB) is participating in, or considering at least two projects intended to improve infrastructure servicing to dilapidated favela communities in Sao Paulo:

**Urbanization and Construction of Favelas in Sao Paulo.** This project is part of “Projeto Cingapura” and includes construction of 170 favela apartments to affect 62,300 families. The main components of the work are land titling and urbanization (basic sanitation infrastructure), construction of low-rise multi-family dwellings, and housing policy and institutional framework development. The value of the work is estimated at \$340 million and the IADB funding level is \$205 million.

**Urban Settlement Program.** This project includes improvement of living conditions for low-income residents of poor neighbourhoods. It covers about 200 single and multi-occupancy housing units and includes the provision of increased water and sewer services, expanded electric service, improved drainage in flood-prone areas, rehabilitation of unstable foundations, and relocation assistance for families in high-risk houses. The value of the work is estimated at \$457 million. IADB’s contemplated funding level is \$205 million. The project was at the preparatory stage in January 1996.

## Housing Need

Estimation of deficits in Latin America is at best a non-exact and subjective procedure, and Brazil is no exception. While theorists and technicians define a housing unit as a structure that has more than one room and a separate entrance, census administrators consider any structure (including vehicles, caves and houseboats) that has been made to serve as shelter for humans to be a housing unit. Census information generally prevails simply because it is available. Further, any housing unit that lacks basic services such as

running water, power, or garbage collection is included in the estimation of the deficit, whether it is in a rural or urban setting. More often than not, housing deficits are over-estimated.

1991 is the most recent year for which detailed information on the Brazilian housing deficit is available. This information is shown in Table 7.

**Table 7:**  
**Brazil: 1991 Housing Statistics**

Number of Households	35,517,542
Private Dwellings	34,734,715
Adequate	19,490,609
Reparable	10,145,712
Beyond Repair	5,098,394
Total Deficit	16,026,933
Quantitative	5,881,221
Qualitative	10,145,712
Annual Increase in Households (1990-95)	909,000

Source: ECLAC, *Human Settlements: The Shelter of Development*, October 1995

The 1991 deficit was placed as low as 5 million units. The context of this figure, that is whether it represents a quantitative or total estimate, is not known. It is suspected that the figure represents the quantitative component only. As can be seen from the table, a significant portion of Brazil's existing housing stock was **either** in need of repair or deemed beyond repair as of 1991.

Approximately 71 percent of Brazil's housing deficit is urban. The overall deficit is concentrated in the Northeast and Southeast regions of the country. Together, those regions contain approximately 77 percent of the country's total housing deficit. Table 8 indicates the general distribution of the housing deficit.

In 1995, there were approximately 39.6 million households in Brazil. This figure is projected to reach 50.5 million by the year 2005. Production levels would have to be in the order of 1.1 million

new units per year from 1995-2005, just to accommodate the rate of new household formation, with no provision for reduction in deficit levels. Information on the present production levels of the Brazilian housing industry is not available.

**Table 8:**  
**Brazil: Distribution of Housing Deficit, 1995**

Region	Percent of Total Housing		Total
	Urban	Rural	
North	4.9	0	4.9
Northeast	22.7	20.7	43.4
Southeast	29.8	3.9	33.7
South	7.5	2.8	10.3
Central West	5.8	1.9	7.7
Total	70.7	29.3	100.0

Source: Fundação João Pinheiro, *Déficit Habitacional no Brasil*, June 1995

## Factors Affecting the Demand for Housing

Access to housing is limited by income disparity. The wealthiest 10 percent of the population enjoy the benefits of 48 percent of the GDP, while the poorest 10 percent benefits from only 0.8 percent of GDP. This severely restricts access to housing for the poor, even when the benefits of public low-income housing programs are considered.

There are about 1.93 million people living in slums in Sao Paulo (the city's population is about 9.8 million people). Of these, approximately half earn more than 4 times the minimum wage, which is about US\$400 per month, effectively categorizing them as lower middle-class. This standard is not an improvement for these people, it is a decline in living standards and demonstrates that they can no longer afford middle-class housing. Consequently, the middle-class is shrinking, and with it, the demand for formal sector housing. This is not unique to Sao Paulo, although because of the large population, it is most obvious. These factors indicate that housing demand will be weak.



# **EXPORT OPPORTUNITIES AND STRATEGIES**

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Canada's exports of coniferous wood products to Brazil ranked 1<sup>st</sup> in 1993 but fell to 7<sup>th</sup> in 1994. Canada's exports of manufactured wood items ranked 2<sup>nd</sup> in 1993 but fell to 6<sup>th</sup> in 1994. In both cases and years, export volumes of these products were small (less than US\$200,000 in all cases). The most significant other exports were PVC siding, at US\$0.9 million in 1993 and US\$1.3 million in 1994; and electrical wire and cable, at US\$0.4 million in 1993 and US\$0.7 million in 1994. The U.S. was among the top five suppliers in 1994 for all 11 products analyzed, and for 9 of the products in 1993. Other major foreign suppliers were Germany and Japan. Remaining foreign sources of building products for Brazil were diverse, with no countries having dominance.

Most of Canada's exports of other products ranked low (typically 10<sup>th</sup> to 20<sup>th</sup>), and sales volumes were generally small.

Little research has been conducted on housing export opportunities in Brazil, but some recent work has concluded that the main market in Brazil is for low-cost housing technologies in concrete and local materials. There may be some market for lightweight building technologies for the middle class as well.

The housing market is unlikely to be breached by foreign companies for some time. However, since 1990, Brazil has instituted a series of trade liberalizations that are opening it up somewhat to international competition, and local industries do look for joint ventures and strategic alliances in all fields. Some encouraging results have been noted in the areas of value-added, hi-tech and manufactured goods.

One of the major needs of the country is cost-effective and technically-sound solutions to the country's huge infrastructure problems. However, the financing necessary for this type of work is not assured.

An interview with a Brazilian builder provided the following Canadian product assessments.

Brazil is a large country and has the capabilities, and the tradition, of being self-sufficient. Much of

Brazil has a tropical climate and most of the Canadian-made building materials analyzed would not be suitable for the housing market in Brazil. While a market may exist for some of the materials in the high- and medium-priced apartment market (because wealthy people like to buy foreign products), the "red tape" involved in importing products is a major obstacle. In order to avoid aggravation and frustration, people tend to buy the local products. Furthermore, as noted, many of the Canadian products would not be competitive.

For these reasons, builders would probably not import Canadian building materials, at least not in the near future.

There is no market for Wood I-beams as most housing consists primarily of apartments rather than single-family dwellings and they are built with concrete or masonry.

There is no market for roof trusses.

Wooden stairs are not very common as most apartments use concrete. Wooden stairs may be used to a small degree in some expensive homes, but imported products would not be price-competitive.

There is no market for asphalt shingles. Very few dwellings use shingles. Most use roof tiles made of red clay and similar materials. Estimated costs for this product are high.

There is a market for windows and they can be used either in frame construction, which is rare, or in concrete buildings. Currently, however, windows are supplied from within Brazil and the costs are much lower than those quoted for the Canadian products, although it seems that the Canadian products are of very good quality.

Vinyl siding is not used in Brazil as most apartments and homes use brick, cement, or a mixture of cement and calcareous materials to keep the houses cool in the summer. It is difficult to comment on costs.

There is no market for vinyl eavestrough as cast iron eaves are usually used.



There is a good market for exterior or entrance doors. Brazil manufactures good quality doors since it has an abundant supply of wood and the Canadian products could not compete with the locally produced materials on a price basis. Most doors are made of wood. Metal, pre-hung doors are not common in dwellings, and not used in apartments in low- or high-rises. Estimated costs for Canadian materials are higher than those for local products.

There are good market prospects for interior doors inside apartments. However, the estimated landed prices are not competitive. There is a good potential for "high-end" doors in luxury apartments, but the market is very small.

There is no apparent market for hardwood floors. Due to the tropical nature of the country, granite and ceramic tiles are used extensively. Brazil also produces good quality, inexpensive granite that is exported and no outside competitors can match Brazilian prices. Also, hardwood prices seem too high to be marketable. Carpeting is rarely used in Brazil, because it is expensive and not very popular.

Closet doors represent a fairly new idea of trying to maximize space in apartments and they could have a good market potential in Brazil. No comment on the price competitiveness of this product.

Kitchen cabinets offer some market potential because of product variety and quality. Brazilian-produced kitchen cabinets also have many models, are well built, and are very competitive in price. Brazilian manufacturers also offer custom-made cupboards since labour is cheap. Canadian products may have a difficult time competing with the local products.

There is a strong market for kitchen sinks (most houses have double sinks). These are manufactured locally and sold to sub-contractors at prices cheaper than the estimated Canadian prices.

Door hardware is manufactured in Brazil, and also imported from the U.S. and Canada. Locally made locks are of good quality and the price range is a bit lower than those for Canadian locks.

There is strong demand for water closets, since most apartments have two to three bathrooms. However, there are several local manufacturers

with a wide range of products and price ranges. Canadian prices appear too high to be competitive.

Compact shower enclosures could be very useful in maids/servants quarters. Most of the apartments have a maid/servants room and these types of units would be appropriate for this kind of situation. No pricing comparative information is available.

Due to climate and construction norms, there is no requirement for insulation.

There is no market for gypsum board. The builder interviewed claimed that gypsum board is not currently used in Brazil.

A large number of alarm systems are produced in Brazil. In addition, guard dogs and security guards are commonly used. Market prospects are doubtful.

Insulated forms appear to be a new product in Brazil. Its prospects are uncertain. The recommendation is to market this product to construction companies and architects.

A number of Canadian companies tried to ship materials packages for manufactured houses a number of years ago, without success. The products were aimed at the upper-end market segment in the countryside, but they did not sell.

Due to the gradual increase in construction activity, Brazil requires a great amount of cement. This has to be imported as the local supply does not meet the current demand.

Brazil has its own building codes and they are complex. Streamlining these with help from Canadian or European service companies would take a long time and does not seem to be feasible.

A market for infrastructure technologies and construction services will develop if funds are available. Markets may exist for closet bi-fold doors and compact shower enclosures.

Export strategies should recognize the size of the Brazilian construction industry, particularly in the high- and medium-rise sectors. Investment opportunities exist, complemented by joint ventures and technology licensing.

An association with a local firm is critical for export success. Local buyers place great importance on quality, technical assistance, and training. Providing these features and services will help in obtaining financing and delivery.

**Export barriers:** Some research material from 1993 indicates that foreign companies, especially construction engineering firms, are prevented from providing technical services in government procurement contracts unless Brazilian firms are unable to provide them. Construction-oriented firms are hindered by various requirements, including forced local partnerships and limits on foreign directorships. Additionally, foreign executives are reportedly not granted entry to the

country unless they are associated with the provision of new technology, increased productivity, or new investment. Foreign investment has been prohibited in several sectors, including real estate; the country does, however, have plans to eliminate barriers to foreign investment.

**Credit risks:** Recent information suggests that credit risks in Brazil remain high.

# BUSINESS ENVIRONMENT

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## Overview

Canadian exporters are able to expand and participate in many business opportunities that make Brazil potentially one of the strongest Latin American partners of Canada. The focus should be on maximizing long-term partnerships.

Nevertheless, complexities of the Brazilian business environment still create formidable challenges for Canadian exporters. Doing business in Brazil is not easy and requires knowledge of local regulations and procedures.

The Brazilian market is complex and takes time to fathom but, as Canada's success demonstrates, the potential rewards justify the upfront marketing costs. Brazil's economy is larger than those of Chile, Argentina and Colombia combined, its inflation and debt woes have been under control since mid-1994, and the market is booming with pent-up consumer demand (population of 150 million people) and industrial demand for imports and new technologies. Market reforms have made doing business in Brazil easier than ever from a regulatory standpoint.

Brazil has three major airlines, Varig, Vasp, and Transbrasil. These companies provide efficient service throughout the country. Brazilian regional airlines provide service to their respective parts of the country. Air taxi service is available at most airports. Scheduled airline fares are comparable to those in Western Europe.

Business people, travellers, and residents spend a good deal of time among the four most important cities: Sao Paulo, Rio de Janeiro, Brasilia, and Belo Horizonte. Sao Paulo is Brazil's centre for commerce and manufacturing; Rio de Janeiro is important for its service industries and several state companies; Brasilia is the seat of government and location of foreign embassies; and Belo Horizonte is a major industrial and mining centre. An excellent air bridge (or *ponte aerea*) service facilitates travel among the first three cities. During rush hours, flights between Rio de Janeiro and Sao Paulo leave every 15 minutes from conveniently located downtown airports. For weekend travel, return reservations must be confirmed for Rio on

Friday evening and for return to Sao Paulo or Brasilia on Monday morning.

Meter taxis, identified by roof lights, are plentiful in urban areas. However, getting about in Sao Paulo and other large cities can still be a problem. It is not always possible to rely on taxis when making calls. They are extremely difficult to find at certain hours of the day and in certain sections of the city. Fares are inexpensive, but frequently readjusted to compensate for inflation. A table used to adjust fares is posted on the inside of the taxi's rear window. It is not necessary to tip.

## Business Customs

Canadian business visitors should become accustomed to several business conditions specific to Brazil. Compared to Canada, the pace of negotiation is slower and is based much more on personal contact. It is rare for important business deals to be concluded by telephone or letter. Many Brazilian executives do not react favourably to quick and infrequent visits by foreign sales representatives. They prefer a more continuous working relationship. The Brazilian buyer is also concerned with after-sales service provided by the exporter.

The slower pace of business negotiation does not mean that Brazilians are less knowledgeable in terms of industrial technology or modern business practices. In fact, one should be as prepared technically when making a call on a Sao Paulo firm as on a Toronto firm. In addition, a Canadian business person is encouraged to learn as much about the Brazilian economic and commercial environment as possible before doing business.

While office hours in Brazil are generally 8:30 a.m. to 5:30 p.m., decision-makers begin work later in the morning and stay later in the evening. The best times for calls on a Brazilian executive are between 10 a.m. and noon, and 3 to 5 p.m., although this is not necessarily observed in Sao Paulo where appointments are common throughout most of the day. Lunch is usually two hours. It is customary in Brazil to drink coffee during a business appointment. While many Brazilians may speak English, they may wish to conduct business in Portuguese. The non-Portuguese speaking



Canadian executive may need an interpreter on more than 50 percent of business calls. Correspondence and product literature should be in Portuguese, and English is preferred as a substitute over Spanish. Specifications and other technical data use the metric system.

Holidays designated by the Brazilian Government are listed in Table 9.

**Table 9:  
Holidays**

January 1	New Year's Day
Four nights and three days preceding Ash Wednesday	Carnival*
March/April	Good Friday
March/April	Easter Sunday
April 21	Tiradentes Day
May 1	Labour Day
June 15	Corpus Christi
September 7	Independence Day
October 12	"Nossa Senhora Aparecida" (Our Lady Appeared)
November 2	All Souls Day
November 15	Proclamation of the Republic
December 8	Immaculate Conception
December 25	Christmas Day
In addition, various state holidays and other religious and federal holidays are proclaimed throughout the year. Some of these include:	
January 20	San Sebastian Day (Rio de Janeiro only)
January 25	Anniversary of the Founding of the City of Sao Paulo (Sao Paulo only)
February 2	"Nossa Senhora dos Navegantes" (Porto Alegre)

Avoid arriving during Carnival unless reservations have been confirmed in advance.

## Business Infrastructure

Brazilian business law as defined in the Constitution of 1988 differentiates between majority Brazilian-owned companies and Brazilian companies with majority foreign capital, such as subsidiaries of multinational firms. Fiscal benefits and preferential treatment in government procurement are granted to the former.

The most common forms of business entities in Brazil are corporations (*sociedade anonima*—denoted SA) and limited liability companies (*sociedade por quotas de responsabilidade limitada*—denoted Ltda). SAs are similar to European corporations, while a Ltda incorporates features of both partnerships and corporations and are similar to European limited liability companies. SAs have strict rules regarding incorporation and disclosure and are required to publish their financial statements and notice of shareholders' meetings. A Ltda is not subject to any disclosure requirements and a subsidiary organized as a Ltda (rather than a SA) is able to reduce expenses and safeguard the privacy of its operations. Joint ventures, a common method for Canadian firms to penetrate the Brazilian market, may be established as either an SA or Ltda.

Foreign companies may not operate branches in Brazil unless they make a special request to the Ministry of Industry and Commerce and are then granted permission by Presidential Decree.

## Distribution and Sales Channels

All the customary import channels exist in Brazil: agents, distributors, import houses, trading companies, subsidiaries and branches of foreign firms. The typical import transaction is the importation of capital goods or raw materials by an individual firm for its own use. Brazilian import firms generally do not maintain stocks of capital equipment or raw materials. This is partly due to a high level of taxation. Some flexibility in the maintenance of stocks in the country has been opened up by legislation enlarging the operations of bonded warehouses. Implementing regulations are contained in Decree Law No. 71,866, dated February 26, 1973.

## Finding a Partner

A local partner is absolutely essential to doing business in Brazil. The partner provides vital insight into business practices, market characteristics and strategies, as well as legal, financial and importation procedures. The type of partner required by a Canadian company will vary, but in general, manufactured goods require a local agent, representative or distributor (selected with similar criteria as in Canada), while Canadian

service companies and investors cannot function effectively without a local partner to be their eyes and ears.

While Brazil only opened to imports in 1988, the market is very sophisticated and competitive. Brazilian buyers know how to *play* competitors off against each other, looking for preferential financing terms, maintenance and warranty packages, in addition to traditional price and quality considerations. Canadian companies approaching the Brazilian market should be prepared to work locally for some time before closing an export sale. Developing personal contact and trust requires frequent visits to the country or bringing buyers to Canada. Knowledge of Portuguese is a definite asset and illustrates respect for the local culture, but is not essential as a growing number of Brazilians are becoming conversant in English. In terms of business literature, English versions are preferable to Spanish; Brazilians do not like to be lumped in with the rest of Latin America.

For an exporter, having an agent is essential for an effective marketing program. A regional orientation prevails throughout Brazil, and the ability of an agent to cover the country generally depends on the type of product being marketed. Suppliers should ensure that an agent is registered with the local authorities prior to signing an agreement with a Brazilian agent. Agency agreements need not be registered with the government unless they contain clauses or provisions regarding exclusivity and non-competitiveness related to the agent. As in other countries, the selection of an agent requires careful consideration. A unique factor in the Brazilian situation is that a single agent may not be able to cover the entire country adequately. Certain types of sophisticated machinery may have only a dozen or so potential buyers in Brazil, making marketing relatively simple. On the other hand, less expensive equipment with a wide potential market and the need for countrywide service facilities puts much greater organizational demands on an agent.

Use of local customs agents, trading companies, or brokers may be advisable when exporting to Brazil because of the complexities caused by regulations, documentation procedures, and government

bureaucracy. Sales representatives can also be helpful, provided there is a formal agreement that expressly prohibits the sales agent or representative from contractually obligating the principal to a sales contract. Otherwise, income tax may be due on the profit of the sale (assumed to be 20 percent of amount billed). This tax stipulation also applies to exports shipped to Brazil and billed directly to the Brazilian customer. Remuneration paid to agents by foreign principals is limited to 10 percent of total sales of industrial goods and 3 percent of total sales of non-industrial goods. For these purposes, total sales must be reported to the Foreign Trade Bureau. However, there are no other reporting or withholding requirements for foreign principals who do not have a permanent business established in Brazil.

Brazilian income tax is levied on a foreign exporter if the exporter is present in Brazil (Article 76 of Law 3470/58). This presence is determined basically by two interrelated factors: the closing of sales contracts in Brazil and the existence of either an express or tacit power of attorney granted to an agent or representative in Brazil.

The taxable income is estimated at 20 percent of the total price of the product imported into Brazil. The precise applicability of this law to any particular transaction or agent-principal relationship is best determined by a Brazilian tax lawyer.

Once the agent-principal contract is signed, a Brazilian agent is protected by law from unilateral termination of the contract by the foreign principal without just cause. The definition of just cause is: agent's negligence; agent's breach of contract; acts by the agent damaging to the principal; *force majeure*; and conviction of the agent for a criminal offence. Contract stipulations and conditions for termination of agency agreements in Brazil are contained in Articles 27-39 of Law No. 4886, of December 10, 1965.

Agreements may be for definite or indefinite terms. Definite term agreements for which both parties continue to adhere to the agreement after expiration of the contract are considered to be renewed for an indefinite term. Definite term agreements may also be renewed using the same provisions set forth in the initial contract provided that both parties agree to scheduled expiration dates.



Service of notice of termination is obligatory before termination of an agreement. If the principal does not provide proper notice of termination, the agent is entitled to compensation from the principal amounting to one third of the projected earnings for the last three months of the contract prior to termination. One-month notice is required when the agreement has been in force for over six months, along with a compensation payment of one third of the commission earned in the previous quarter of the year. An agent whose agreement has been terminated without just cause may receive indemnification exceeding one twentieth of entire remuneration from sales and commissions earned throughout the term of the agreement.

## Joint Ventures and Licensing

Establishment of joint ventures is a common practice in Brazil. A major motivation for joint ventures is to pair foreign firms with Brazilian partners to compete in segments of the government procurement market or in other markets subject to government regulation, such as telecommunications, computers, and capital goods. Formation of a joint venture can be accomplished through a variety of business entities, the most common of which are *sociedades anônomas* and *limitadas*.

Licensing agreements are common forms of accessing the Brazilian market. Use of a competent local attorney in structuring such an arrangement is advised. All licensing and technical assistance agreements, including trademark licences, must be registered with INPI.

## Establishing an Office

Either setting up a company in Brazil or acquiring an existing entity are options for investing in Brazil. Setting up new companies is relatively easy and inexpensive. Acquisitions of existing companies are monitored by the Central Bank.

Branch offices are difficult to form, whereas corporations (*sociedades anônomas*) and limited liability companies (*limitadas*) are relatively easy to form. Capital registration with the Central Bank is required for access to foreign exchange, capital repatriation, and profit remittance.

Brazil's minimal capital requirements are nominal in general, but are significant for establishment of financial institutions. When selecting the site of an investment, potential local investment incentives should be carefully considered.

## Selling Factors and Techniques

Brazil is a market of contrasts, with many unique characteristics and many penetration options available. Canadian companies that entered this market to stay have already achieved notable success, but they have barely begun to explore the opportunities available.

The best approach to selling in Brazil includes patience and understanding, and a demonstrated long-term commitment to the market. The rapid evolution of the Brazilian economy, and the urgency of its industrial development needs, make it essential for the Canadian exporter to visit frequently in order to update information firsthand and avoid potential pitfalls. Since direct sales to the end user are rare, the key is to establish local sales representatives or distributors, capable of protecting and promoting the Canadian company's interests.

Local buyers place a definite emphasis on a total package that includes quality as well as technical assistance and training as major components. After years of high inflation rates and protective import substitution regulations, many Brazilian buyers still function in a business mode different from Canada. They will try to get from the supplier not only the technical solution to the problem, but also help in solving other issues such as financing and delivery. Canadian suppliers should be prepared to adjust their marketing approach accordingly.

Over a number of decades, Brazilian buyers have dealt with sales representatives from every major supplying country. As a result, they are among the most creative buyers in the world, and will always pay close attention to the bottom line. They are very sophisticated and will also pay attention to the quality to price ratio. Nevertheless, the rapid opening of a market which has been closed for a considerable time, has caused a surge in imports, unleashing significant non-traditional demand. Importers are scrambling to solidify ties in a market where there were few established supplier linkages.

Canada's image is an additional asset. Brazilians perceive Canadians as honest, sensitive to cultural



differences, co-operative, punctual, and as people who can be relied upon to deliver what was promised.

Sales of industrial products are typically price-driven. However, with the opening of the market to imports in the early nineties, quality has become increasingly more important, particularly for companies seeking to modernize their production methods. After price and quality are delivery and after-sales servicing. Sales of consumer goods tend to be principally affected by brand name rather than price and quality.

Special price discounts are a common sales tool in the industrial and consumer or retail segments. As a rule, most final sale products tend to have substantial markups, thereby allowing for a price reduction when the actual sale takes place.

### Advertising and Trade Promotion

Advertising in specialized trade and technical publications is an important marketing tool in the Brazilian market. With its well established and diversified industrial sector, Brazil has a variety of quality specialized publications that serve the industrial and business communities. Canadian firms wishing to sell in the Brazilian market cannot ignore advertising in these trade publications.

Major newspapers are the Jomal do Brasil, O Globo, Folha de Sao Paulo, O Estado de Sao Paulo and Gazeta Mercantil; major news magazines are Veja, Isto E, and Exame.

Brazil is home to well-established and sophisticated advertising agencies, with first-world standards and level of creativity. Television advertising is highly developed and plays an important role in the promotion of consumer goods and food products.

Participation in Brazilian trade fairs is another important marketing tool. The city of Sao Paulo hosts around 300 trade fairs per year, many of international quality and reputation.

### Pricing Products

With the high inflation rates that prevailed in Brazil for more than two decades, product pricing was an inexact methodology at best. With inflation rates averaging 30 percent per month, companies usually

just added the "expected" monthly inflation rate to the current price. When sales needed to be pushed upward, the method of increasing the price followed by a "discount" was commonly used. This pricing practice still applies for both industrial and consumer products. However, with the July, 1994 implementation of the new currency, the "Real Plano", and an observed monthly inflation rate below 5 percent, pricing methodologies have been reconsidered and revised.

### Sales Service and Customer Support

Sales service is considered of utmost importance by most buyers of industrial goods. However, small and medium-size suppliers have not always been able to maintain high-level after-sales and customer support services because of the continuous economic instability and uncertainty in the market. Good after-sales and customer support service is offered by large manufacturers. Quality control is also in increasing demand. Even small companies are seeking to implement quality control and customer servicing policies to improve sales.

Since passage of the Consumer Protection Law in March 1992, sales of consumer goods now require customer support and after-sales servicing. However, Brazilian consumers are gradually demanding these services. A good number of manufacturers of consumer goods, including food processors, now have customer support services, which include toll-free telephone numbers.

### Selling to the Government

Brazilian government procurement policies apply to purchases by government entities and by parastatal companies. Government procurement regulations are contained in Law 8666 of August 1993, which establishes an open competitive process for major government procurement. Under Law 8666, price is the determining factor in selecting suppliers, and most government procurement are open to international competition, either through direct bidding, consortia, or imports. International bidding is required for all procurement with international development bank funding, such as through the IADB or World Bank.

Government procurement of telecommunications equipment and data processing (informatics)

equipment is exempted from the above requirements. Special requirements were established in 1993 and 1994 allowing locally manufactured telecommunications and informatics products to receive preferential treatment in government procurement, and to be eligible for tax and other fiscal benefits based on meeting local content and other requirements.

In practice, it is difficult for foreign service firms to operate in the public sector in Brazil unless in association with a local firm. To be considered Brazilian, a firm must have majority Brazilian capital participation and decision-making authority—"operational control." A Brazilian state enterprise is permitted to subcontract services to a foreign firm if domestic expertise is not available for the specific task. A foreign firm may only bid for government contracts to provide technical services when no qualified Brazilian firm exists.

In the case of international bids to supply goods and services or specific government projects, successful bidders are required to have local representation, that is a "legal presence" in Brazil. Since the open period for bidding is often as short as one month, it is highly advisable to have a permanent resident in Brazil able to act on tenders as soon as they are announced.

A Canadian supplier may find that inclusion of local purchases of Brazilian goods and services within its bid, or significant subcontract association with a Brazilian firm, will improve the changes for success.

Similarly, a financing proposal that includes credit for purchase of local goods and services for the project will be more attractive.

## Protecting your Products from IPR Infringement

A major concern of foreign companies trading with Brazil is that protection of intellectual property rights is often inadequate and uncertain.

Brazil is a signatory to the Paris, Bern, and Universal Copyright conventions on intellectual property rights (IPR) protection. Most of the country's statutes on IPR are consistent with Western standards.

Some issues of concern to foreign patent holders are INPI's slow processing of patent applications, the federal judiciary's uncertain application of patent law, and the potential for arbitrary interpretation of compulsory licensing requirements.

Brazil does not have a statute that specifically provides protection to trade secrets or know-how. There is only an indirect form of protection, normally of five-years' duration, derived from the unfair competition section of Brazil's Industrial Property Code, Article 178, Item XII.

Companies established in Brazil are now virtually free to negotiate technology transfer contracts. INPI will no longer express an opinion on the terms on which a company has negotiated a technology transfer agreement. However, contracts still have to be registered with INPI, a process that should take no longer than one month. The new rules came into force under an ordinance published on December 2, 1993, which introduces the first substantive alterations to the legislation enacted in 1975.

## Need for Local Legal Assistance

Securing competent local legal representation is a fundamental step in establishing a commercial presence in Brazil when intellectual property licensing or protection is involved, or where investments involve local manufacturing or local investment incentives.

## Regulatory Issues

Since the late 1980s, the government has begun eliminating trade barriers and reducing import duties in an effort to encourage trade.

The Foreign Trade Department of the Bank of Brazil (DECEX) issues import licences, though authorized banks may now process import licences and documentation as well. Regulations imposed on imports to Brazil include limited entry or prohibited entry at certain ports, specific labelling and packaging requirements, and restricted routing, storage, or use of the item. It is crucial that the importer in Brazil has the proper identification and information to receive the items upon arrival, and that the importer make the proper arrangements for the entry of the merchandise into Brazil.

Brazil classifies imported goods along a schedule called the Nomenclatura Brasilia de Mercadorias



(NBN) which is consistent with the Harmonized System (HS) for tariff classification. Import duties, based on cost, insurance, and freight (CIF) values are levied *ad valorem*. These duties range from 0 to 40 percent, with the majority falling between 20 and 30 percent. A number of other port fees are payable, including federal value-added taxes (IPI), ranging from 0 to 15 percent, and state value-added taxes (ICM) set at 17 percent of the CIF value on imported goods and services. If the goods are for manufacture or sale in Brazil, however, the importer may recover the VAT. A 25-percent tax is levied on the amount paid for international freight.

Articles as recent as 1993 report that foreign companies, especially construction engineering firms, are prevented from providing technical services in government procurement contracts unless Brazilian firms are unable to provide them. Construction oriented firms are hindered by various requirements, including forced local partnerships and limits on foreign directorships. Additionally, foreign executives are reportedly not granted entry to the country unless they are associated with the provision of new technology, increased productivity, or new investment. Foreign investment has been prohibited in several sectors, including real estate; the country does, however, have plans to eliminate barriers to foreign investment.

### EDC Financial Risk Assessment

*The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services and guarantees.*

*The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).*

These issues should be taken into consideration when assessing financial risk in Brazil.

- The 1994 economic stabilization plan, known as the Real Plan, continues to be successful at

holding down inflation and stabilizing the Brazilian currency. Annual inflation is at its lowest level in 20 years, and by mid-1996, monthly inflation was below 2 percent. Despite the success of the Plan, long-term stabilization in Brazil must be centred on deep fiscal adjustments to overhaul public finances at all levels of government.

- Since the introduction of the Real Plan, fiscal policy has been unambiguously expansionary. The overall fiscal deficit was 5 percent of GDP in 1995, the worst performance so far in the 1990s. Public sector wage gains, increased interest payments associated with high interest rates and the government's inability to adapt its spending pattern to the new low inflation environment caused federal government bonds outstanding to increase by over 120 percent in the 2 months prior to June 1996. Such growth of domestic public sector debt is simply not sustainable.
- To compensate for lax fiscal policy, monetary policy has been very tight and is solely responsible for the reduction in inflation and the longevity of the Real Plan. At the end of August, 30-day commercial bank certificates of deposit paid just under 2 percent, implying an annual interest rate of 26 percent. The high interest rates have reduced domestic demand and increased business bankruptcies which reached a 35-year high in Sao Paulo in 1995.
- High interest rates, low inflation and the stable currency have caused a considerable increase in foreign investment in Brazil. Through June 1996, foreign direct investment reached US\$4.5 billion, compared to US\$2.9 billion for all of 1995. Capital inflows have pushed foreign exchange reserves to record highs in the US\$60 billion range. In turn, the *real* has appreciated in real (inflation adjusted) terms by as much as 40 percent over the past two years. This has caused the external sector to perform below government expectations, with a trade deficit of US\$300 million in the first half of 1996.



- The reduction of inflation is encouraging, but the increase in public sector debt must be curtailed for interest rates to decline and for the Real Plan to remain credible in the short term. Otherwise, pressure to devalue the currency, which has risen steadily in 1996 will be strengthened further. Longer-term economic progress depends largely on political developments.

### **Collection Experience**

The overall collection experience in Brazil is fair. Payment problems in some sectors, such as fertilizer, continue. A full range of trading terms is common. Scarce, expensive credit has squeezed private sector and consequently, bankruptcies continue to rise. Consolidation of banking sector will continue.

## Canada Mortgage and Housing Corporation

Housing Export Centre

700 Montreal Road  
Ottawa, ON K1A 0P7

Tel.: 1-800-465-6212 or  
(613) 748-2000  
Fax: (613) 748-2302

## Canadian Government Departments and Services

Department of Foreign Affairs and  
International Trade (DFAIT)

InfoCentre  
Lester B. Pearson Building  
125 Sussex Drive  
Ottawa, ON K1A 0G2

Tel.: 1-800-267-8376 or  
(613) 944-4000  
Fax: (613) 996-9709  
FaxLink: (613) 944-4500  
InfoCentre Bulletin board:  
Tel.: 1-800-628-1581 or  
(613) 944-1581

Latin American and Caribbean Trade  
Division (LGT)  
125 Sussex Drive  
Ottawa, ON K1A 0G2

Tel.: (613) 996-5549  
Fax: (613) 943-8806

Canadian Embassy in Brazil

Ses-Av. das Nacoes, Lote 16  
Brasilia, DF 70410-900

Tel.: (011-55-61) 321-2171  
Fax: (011-55-61) 321-4529

Canadian Consulate General

Edificio Top Centre  
Avenida Paulista 854  
5 Andar, 01310-913  
Sao Paulo, SP

Tel.: (011-55-11) 287-2122  
Fax: (011-55-11) 251-5057

## International Trade Centres

Newfoundland

International Trade Centre  
P.O. Box 8950  
Atlantic Place  
215 Water Street  
Suite 504  
St. John's, NF A1B 3R9

Tel.: (709) 772-5511  
Fax: (709) 772-5093

Prince Edward Island

International Trade Centre  
P.O. Box 1115  
Confederation Court Mall  
134 Kent Street  
Suite 400  
Charlottetown, PE C1A 7M8

Tel.: (902) 566-7443  
Fax: (902) 566-7450

Nova Scotia

International Trade Centre  
P.O. Box 940, Station M  
1801 Hollis Street  
Halifax, NS B3J 2V9

Tel.: (902) 426-7540  
Fax: (902) 426-5218

New Brunswick

International Trade Centre  
1045 Main Street  
Unit 103  
Moncton, NB E1C 1H1

Tel.: (506) 851-6452  
Fax: (506) 851-6429

Quebec

International Trade Centre  
5 Place Ville-Marie  
Seventh Floor  
Montreal, PQ H3B 2G2

Tel.: (514) 283-6328  
Fax: (514) 283-8794

Ontario

International Trade Centre  
Dominion Public Building  
1 Front St. West  
Fourth Floor  
Toronto, ON M5J 1A4

Tel.: (416) 973-5053  
Fax: (416) 973-8161

Manitoba

International Trade Centre  
P.O. Box 981  
330 Portage Avenue  
8th Floor  
Winnipeg, MB R3G 2V2

Tel.: (204) 983-5851  
Fax: (204) 983-3182

## International Trade Centres (cont'd)

Saskatchewan	International Trade Centre The S.J. Cohen Building 119-4 <sup>th</sup> Avenue South Suite 401 Saskatoon, SK S7K 5X2	Tel.: (306) 975-5315 Fax: (306) 975-5334
Alberta <i>* Edmonton office is also responsible for Northwest Territories</i>	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3	Tel.: (403) 495-2944 Fax: (403) 495-4507
	510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia <i>*Vancouver office is also responsible for the Yukon</i>	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

## Export Development Corporation (EDC)

Ottawa	151 O'Connor Street Ottawa, ON K1A 1K3	Tel.: (613) 598-2500 Fax: (613) 237-2690
Vancouver	One Bentall Centre 505 Burrard Street Suite 1030 Vancouver, BC V7X 1M5	Tel.: (604) 666-6234 Fax: (604) 666-7550
Calgary	510-5th Street S.W. Suite 1030 Calgary, AB T2P 3S2	Tel.: (403) 292-6898 Fax: (403) 292-6902
Winnipeg <i>*office also serves Saskatchewan</i>	330 Portage Avenue Eighth Floor Winnipeg, MB R3C 0C4	Tel.: (204) 983-5114 Fax: (204) 983-2187
Toronto	National Bank Building 150 York Street Suite 810 P.O. Box 810 Toronto, ON M5H 3S5	Tel.: (416) 973-6211 Fax: (416) 862-1267
London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

## Brazil Government Offices in Canada

Embassy of Brazil	450 Wilbrod Street Ottawa, ON K1N 6M8	Tel.: (613) 237-1090 Fax: (613) 237-6144
Consul General of Brazil	2000 rue mansfield Suite 1700 Montreal, PQ H3A 3A5	Tel.: (514) 499-0968 Fax: (514) 499-3963
Consul General of Brazil	77 Bloor St. West Suite 1109 Toronto, ON M5S 1M2	Tel.: (416) 922-2503 922-1058 Fax: (416) 922-1832



## Brazil Government Offices in Canada (cont'd)

Consul & Trade Commissioner of Brazil	1140 West Pender St. Suite 1300 Vancouver, BC V6E 4G1	Tel.: (604) 687-4589 Fax: (604) 681-6534
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## Multilateral Organizations

World Bank	Washington, D.C. 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, D.C. 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726

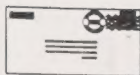
## Business and Professional Organizations in Canada

The Canadian Council for the Americas (CCA)	Executive Offices, Third Floor 145 Richmond Street West Toronto, ON M5H 2L2	Tel.: (416) 367-4313 Fax: (416) 367-5460
Brazil-Canada Chamber of Commerce	2400 Dundas St. West Suite 6 Box 355 Mississauga, ON L5K 2R8	Tel.: (905) 822-9115 Fax: (905) 822-9638
Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, ON K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218

## Canadian Banks in Brazil

Royal Bank of Canada	Representative Office Avenida Paulista 460 - 140 Andar (CEP 01065-970) 01310-904 Sao Paulo, Brazil
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<input type="checkbox"/>	Please charge my
<input type="checkbox"/>	VISA <input type="checkbox"/> American Express <input type="checkbox"/> MasterCard <input type="checkbox"/>
Card Number	
Expiry Date	
Signature	
<input type="checkbox"/>	Payment enclosed   \$ _____
Please make cheque or money order payable to CMHC	

To Complete See Example on Reverse Side

ORDER NUMBER	REPORT TITLE <small>Please be sure the order number and report title match the listing</small>	<sup>1</sup> QTY	<sup>2</sup> ITEM AMOUNT \$	<sup>3</sup> TOTAL \$ AMOUNT <sup>1</sup> x <sup>2</sup>	<sup>4</sup> SHIPPING POINTS	<sup>5</sup> TOTAL SHIPPING POINTS <sup>1</sup> x <sup>4</sup>
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	

<b>SOURCE</b> (How did you hear about the product?)  TV AD <input type="checkbox"/> <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> <input type="checkbox"/> OTHER	<b>Subtotal Column 3</b> <b>A</b>		<b>Subtotal Column 5</b>
	<b>SHIPPING CHOICE</b> <b>ADD Shipping &amp; Handling</b> <b>B</b> Regular Mail <input type="checkbox"/> Courier <input type="checkbox"/>		
	<b>Subtotal</b> <b>C</b> (Add A + B)		
	<b>ADD GST</b> <b>D</b> Registration #100756428   (7% of subtotal C)		
<b>U.S. AND INTERNATIONAL ORDERS</b> Please pay subtotal C in U.S. Funds (do not add GST or PST)	<b>Subtotal</b> <b>E</b> (Add C + D)		Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.  SEE EXAMPLE ON REVERSE
	<b>Quebec residents add PST</b> <b>F</b> (6.5% of Subtotal E)		
	<b>Total</b> <b>G</b> (Add E + F)		



## Shipping and Handling Charges

Points	Canada Regular Rates	Canada Courier Rates	U.S. Regular Air Rates	U.S. Courier Rates	International Regular Air Rates	International Courier Rates	Europe Courier Rates
1	2.55	5.00	5.00	11.00	7.00	24.00	19.00
2	3.65	8.00	6.50	14.00	9.00	30.00	25.00
3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
181 to 200	10.98	35.60	69.38	176.75	250.29	658.75	269.75
201 to 220	11.48	40.45	75.05	190.75	N/A	718.75	289.75
221 to 240	11.99	43.30	80.72	204.75	N/A	778.75	309.75
241 to 260	12.49	46.15	86.49	218.75	N/A	838.75	329.75
261 to 280	13.00	49.00	92.21	232.75	N/A	901.75	349.75
281 to 300	13.50	51.85	97.88	246.75	N/A	958.75	369.75
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### Example: To complete order form and determine shipping and handling charges

ORDER NUMBER	REPORT TITLE <small>Please be sure the order number and report title match the listing</small>	1 QTY	2 ITEM AMOUNT \$	3 TOTAL AMOUNT 1 x 2	4 SHIPPING POINTS	5 TOTAL SHIPPING POINTS 1 x 4
NHA 8003	Brazil	1	35.-	35.-	3	3
NHA 8009	Western Europe	2	23.-	46.-	3	6
					3	
					3	
SOURCE <small>(How did you hear about the product?)</small>		Subtotal Column 3 A 81.-			Subtotal Column 5 9	
TV AD <input type="checkbox"/> <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> <input type="checkbox"/> OTHER		SHIPPING CHOICE Regular Mail <input checked="" type="checkbox"/> Courier <input type="checkbox"/> ADD Shipping & Handling B 6.18			Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.	
		Subtotal (Add A + B) C 87.18				
		Registration #100756428 ADD GST (7% of subtotal C) D 6.10				
		Subtotal (Add C + D) E 93.28				
U.S. AND INTERNATIONAL ORDERS <small>Please pay subtotal C in U.S. Funds (do not add GST or PST)</small>		Quebec residents add PST (6.5% of Subtotal E) F -				
		Total (Add E + F) G 93.28				







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